Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author:	Duvall	Analyst:	Angela Raygoza	Bill Number:	AB 79
Related Bills:	See Prior Analysis	Telephone:	845-7814	Amended Date:	February 18, 2009
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Disaster Loss Deduction/Excess Loss Carryover/November 2008 Orange and Riverside County Wildfires

____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended ____________________.

_X_ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENTS CONCERNS stated in the previous analysis of bill as introduced/amended ____________________.

____ FURTHER AMENDMENTS NECESSARY.

____ DEPARTMENT POSITION CHANGED TO ____________________.

_X_ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED December 19, 2008, STILL APPLIES.

_X_ OTHER – See comments below.

SUMMARY

This bill would allow special tax treatment, called disaster loss treatment, for losses sustained as a result of the wildfires that commenced in November, 2008, in Orange and Riverside Counties.

This analysis will not address the bill's changes to the Property Tax Law, as they do not impact the department or state income tax revenue.

SUMMARY OF AMENDMENTS

The February 18, 2009, amendments would add the Riverside County wildfire of November, 2008, to the list of specified disasters.

As a result of the amendments, the “This Bill” and “Revenue Impact” discussion, as provided in the department’s analysis of the bill as introduced December 19, 2008, have been revised. The remainder of that analysis still applies.

Board Position:			Asst. Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Patrice Gau-Johnson	03/25/09
____ N	____ OUA	_X_ PENDING		

ANALYSIS

PROGRAM BACKGROUND

On November 15, 2008, Governor Arnold Schwarzenegger proclaimed a state of emergency declaring the wildfires that occurred in Orange and Riverside Counties to be state disasters. On November 18, 2008, President George W. Bush proclaimed a federal disaster for the wildfires that occurred in Los Angeles, Orange, Riverside, and Santa Barbara Counties.

THIS BILL

As a Presidentially-declared disaster, taxpayers are allowed to deduct the disaster losses in the year the loss occurs or in the preceding year by filing an amended return.

This bill would allow special carry forward treatment for up to 15 taxable years for losses sustained as a result of the wildfires that occurred in Orange and Riverside Counties during November, 2008.

ECONOMIC IMPACT

Revenue Estimate

The revenue impact for this bill would be as follows:

Estimated Revenue Impact of AB 79 Effective Immediately Upon Enactment Enactment Assumed After June 30, 2009				
	2008-09	2009-10	2010-11	3-Year Impact
Orange	-$3,000	+$2,000	+$1,000	$0
Riverside	$0	$0	$0	$0
Total	-$3,000	+$2,000	+$1,000	$0

This estimate does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

The revenue impact of this bill would depend on the extent affected taxpayers file amended 2007 tax returns and report a disaster loss deduction as a result of wildfires that occurred during November, 2008, in Orange and Riverside Counties.

Orange County Wildfire

Total property damages attributable to the November, 2008, Orange County wildfire are estimated at $90 million (202 residences destroyed at an average home value of $446,000). It is estimated that 90% of residential losses are insured. Therefore, uninsured losses are approximately $9 million ($90 million X 10%). Assuming an average marginal tax rate of 7%, this would result in a disaster loss deduction of approximately $630,000 ($9 million X 7%).

Losses may be used in the year prior to the disaster, the year of the disaster, or carried forward to future years. This bill would extend the period to report the disaster loss deduction on amended 2007 returns from April 15, 2009, to October 15, 2009. Approximately 1% of taxpayers would take advantage of this extension, for a revenue loss of approximately $6,000 (-$630,000 X 1%). Of this loss, approximately one-half would be applied to reduce tax liabilities (-$6,000 X 50% = -$3,000). This accelerated loss of $3,000 is accrued back to the 2008-09 fiscal year because it is attributable to a prior tax year.

Future years would show offsetting revenue gains. Departmental data suggest that offsetting revenue gains would be approximately 50% of losses claimed in prior years in 2009-10, or approximately $2,000 ($3,000 X 50%), and 30% in 2010-11, or approximately $1,000 ($3,000 X 30%). The overall revenue impact for the three-year period is zero (-$3,000 + $2,000 + $1,000).

Riverside County Wildfire

The inclusion of Riverside County wildfire would have an insignificant impact on the revenue.

Total property damages attributable to the November, 2008, Riverside County wildfire are estimated at $6 million (18 residences destroyed at an average home value of $342,000). It is estimated that 90% of residential losses are insured. Therefore, uninsured losses are approximately $600,000 ($6 million X 10%). Assuming an average marginal tax rate of 7%, this would result in a disaster loss deduction of approximately $42,000 ($600,000 X 7%).

Losses may be used in the year prior to the disaster, the year of the disaster, or carried forward to future years. This bill would extend the period to report the disaster loss deduction on amended 2007 returns from April 15, 2009, to October 15, 2009. It is estimated that approximately 1% of taxpayers would take advantage of this extension, for a revenue loss of approximately $420 (-$42,000 X 1%). Of this loss, approximately one-half would be applied to reduce tax liabilities (-$420 X 50% = -$210). This accelerated loss of $210 is accrued back to the 2008-09 fiscal year because it is attributable to a prior tax year.

The impact would be approximately -$210 in 2008-09, +$100 in 2009-10, and +$65 in 2010-11. Amounts less than $1,000 are rounded to the nearest $1,000, which is $0 for purposes of the total impact.

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